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2000

MAINE

CORPORATE INCOME TAX BOOKLET

INCLUDES FORMS:

1120A-ME

1120ME

1120X-ME

2220ME

**ESTIMATED TAX
VOUCHERS**

NEW FOR 2000

MAINE ADOPTS AUTOMATIC PAPERLESS EXTENSION POLICY. Maine extension request Form 4477ME has been eliminated. The Maine corporate extension period for filing the return is equal to the federal extension period plus 30 days. This extension is automatic and no form or written request is required to obtain it. (For more information, see item 4 on page 2 and the Extension Payment Voucher on page 23).

MAINE NO LONGER ACCEPTS NEGATIVE FEDERAL TAXABLE INCOME resulting from the carryback of a net operating loss (NOL). This change applies to original and amended returns filed on or after January 1, 2001. A recent review has concluded that federal filing requirements prohibit reducing federal taxable income to less than zero as a result of an NOL carryback or carryover (see IRS Publication 542). This change applies to all returns filed on or after January 1, 2001, including returns filed for prior years. For more information regarding the impact of this change, see the example for line 4d on page 5.

OVERPAYMENTS CREDITED TO FUTURE TAX YEARS. Effective January 1, 2001, Maine Revenue Services will offset tax overpayments designated to be carried forward in order to satisfy an existing debt with MRS or other agency.

THROWBACK SALES. The Maine Legislature now requires the collection of information on the taxation of throwback sales. See instructions on page 7.

See other important changes on pages 41 & 42

QUESTIONS?

C-Corporation
S-Corporation, Partnership
& Individual
Withholding
To order forms:

207-624-9670

207-626-8475

207-626-8475

207-624-7894

E-mail: corporate_tax@state.me.us

E-mail: income_estate_tax@state.me.us

E-mail: withholding_tax@state.me.us

For general information and downloadable forms, visit our Web site:

<http://janus.state.me.us/revenue>

GENERAL INSTRUCTIONS

1. CORPORATIONS SUBJECT TO INCOME TAX: Every entity (including exempt organizations) must file Form 1120ME and pay the applicable Maine corporate income tax if it meets the following criteria:

1. The entity is subject to federal income tax as a corporation; and
2. The entity realizes Maine net income.

Maine Net Income. Maine net income is the taxpayer's federal taxable income modified by Maine law and apportionable to Maine. Income is apportionable to Maine if the taxpayer conducts business in Maine or owns or uses property in Maine in a corporate capacity.

Conducting Business in Maine. Without limitation, a corporation conducts business in Maine if it engages in any of the following activities in this state:

1. Maintains an office or other place of business;
2. Executes a contract;
3. Exercises or enforces contract rights;
4. Buys, sells or procures services or property; or
5. Employs labor.

Owning or Using Property. Without limitation, a corporation owns or uses property in Maine if it:

1. Owns property that is held by another person in this state under a lease, consignment or other arrangement;
2. Uses in this state property that it holds under a lease, license or other arrangement; or
3. Maintains a stock of goods in this state.

Exception for Certain Activities under U.S. Public Law 86-272. A foreign corporation that does business in Maine or owns or uses property in Maine is not subject to Maine income tax if its activities in the State are all activities that are set forth in U.S. Public Law 86-272.

a. Solicitation Activities. U.S. P.L. 86-272 precludes Maine from imposing a tax on the income of a foreign corporation if the sole activity of the corporation in this State is the solicitation by the corporation's representatives (in the name of the corporation or in the name of a prospective customer) of orders for the sale of tangible personal property, provided that the orders are sent outside of the State of Maine for approval or rejection, and provided that the orders are filled by shipment or delivery outside of Maine.

Limitations. P.L. 86-272 restricts a state's tax jurisdiction with respect to sales solicitation activities only if the taxpayer's activity is limited to solicitation of orders for the sale of **tangible personal property**. U.S. P.L. 86-272 does not afford protection in the following circumstances:

1. A **combination** of solicitation activities and non-solicitation activities in Maine;
2. The solicitation of orders for the sale or provision of **services**, either standing alone or in combination with the solicitation of orders for tangible property. Some examples of the combined sale of services and tangible personal property are photographic development and the provision of architectural or engineering services; and
3. The solicitation of orders for the sale, lease, rental, license, or other disposition of **real property** or **intangibles**.

b. De Minimis Activities. Non-solicitation business activities conducted by a corporation in Maine will not subject the corporation to tax-

tion if the activities, taken together, are *de minimis*. For additional information, request a copy of Rule 808.

2. CORPORATIONS NOT SUBJECT TO THE MAINE CORPORATE INCOME TAX:

Corporations that elect to file under Subchapter "S" of the Internal Revenue Code (except those with federal taxable income at the corporate level), insurance companies subject to, or that would be subject to, tax under 36 M.R.S.A. §§ 2512-2526 (Insurance Premiums Tax and Fire Investigation and Prevention Tax) and financial institutions (see **b.** below) are not subject to Maine corporate income tax. Corporate small business investment companies, licensed under the United States Small Business Investment Act of 1958 that are commercially domiciled in Maine and do business primarily in Maine are also not subject to this tax.

a. LIMITED LIABILITY COMPANIES. Maine law allows for the formation of limited liability companies. It provides that a domestic limited liability company or foreign limited liability company doing business in Maine is classified as a partnership for Maine income tax purposes, unless classified otherwise for federal income tax purposes, in which case the limited liability company is classified in the same manner for Maine income tax as for federal income tax purposes.

b. BANKING INSTITUTIONS SUBJECT TO FRANCHISE TAX. Every corporation that is a financial institution, except a credit union, any service corporation or subsidiary as defined in 9B M.R.S.A. § 131 and any financial institution holding company that is doing business in this state must file Form 1120B-ME and pay Maine franchise tax. This requirement also applies to any financial institution organized as an S corporation, partnership or entity disregarded as separate from its owner. **Do not use Form 1120ME.** Form 1120B-ME is available by calling 624-7894 or by visiting the Maine Revenue Services Web site at <http://janus.state.me.us/revenue>

3. DATE FOR FILING RETURN: Corporations reporting for the calendar year 2000 should file, with payment, on or before March 15, 2001. Fiscal year taxpayers should file, with payment, on or before the 15th day of the third month following the close of the taxable year.

4. EXTENSIONS FOR FILING: A State of Maine extension request form is no longer required. If you are unable to file your return by the original due date of the return, Maine allows an automatic seven-month extension of time to file. **CAUTION: AN EXTENSION TO FILE YOUR MAINE RETURN IS NOT AN EXTENSION FOR PAYMENT OF TAX.** If you owe money, you must pay at least 90% of that amount by the original due date for filing your return in order to avoid the penalty for late payment of tax. The remaining 10% must be paid when the return is filed by the extended due date in order to avoid the failure to pay penalty. However, interest is charged on any tax paid after the original due date of your return.

Remit your estimated tax payment with the payment voucher (Form 1120EXT-ME) on page 23 by the original due date for filing your Maine return to: Maine Revenue Services, P.O. Box 1062, Augusta, ME 04332-1062.

5. PAYMENT OF CORPORATE INCOME TAX: All corporations subject to income taxes shall make payments of estimated tax unless the liability for the current taxable year or for the prior tax year reduced by allowable credits is less than \$1,000 (for tax years beginning on or after January 1, 1999). See instructions for Form 1120ES-ME for details.

GENERAL INSTRUCTIONS CONTINUED

6. INTEREST: Interest at 9% per annum, compounded monthly, will be added to the balance of any tax due from the original due date to the date of payment and should be included with any payment.

7. PENALTIES:

a. Underpayment of estimated tax penalty. Beginning January 1, 1999, the penalty is 9% per annum compounded monthly. The penalty will be assessed if the sum of quarterly estimated tax payments is not at least equal to the lesser of the previous year's Maine income tax liability or ninety percent (90%) of the tax liability for the current year. Exception: certain large corporations cannot use the previous year's liability in determining the required amount of estimated tax payments.

b. Late filing and late payment penalties. If a past due return is filed before the receipt or within 30 days of the receipt of a demand notice, the penalty for failure to file is the greater of \$25 or 10% of the amount of tax due. If the return is filed more than 30 days after the receipt of a demand notice, the failure to file penalty increases to 100% of the tax otherwise due.

For failure to pay a tax liability, the penalty is 1% of the tax liability for each month the payment is delinquent, up to a maximum of 25%.

c. Other penalties. The law also provides for penalties for substantial understatement of tax, negligence, fraud and for payment of tax by check that is returned for insufficient funds.

8. ACCOUNTING PERIOD COVERED BY RETURN: Your Maine return covers the same accounting period as your federal corporate return.

9. ACCOUNTING METHODS: A taxpayer's accounting method for Maine income tax purposes must be the same as that used for federal income tax purposes.

10. ADDITIONAL FORMS TO ACCOMPANY STATE RETURN:

a. The Maine corporate return, Form 1120ME, must be accompanied by a legible copy of the corporation's federal return, Form 1120, pages 1 through 4, for the same taxable period (if a member of a **Federal Consolidation**, the federal return, Consolidated Form 1120, pages 1 through 4, must be provided).

b. Any corporation subject to Maine corporate income tax that is a member of an affiliated group, whether or not unitary as defined by Maine law, **must complete Schedule CB**. Exempt organizations filing the Maine corporate return, Form 1120ME, must attach a legible copy of the corporation's federal return, Form 990T.

11. FILING REQUIREMENTS FOR S CORPORATIONS AND PARTNERSHIPS: S corporations and partnerships, except financial institutions, that have Maine-source income or that have resident shareholders or partners are required to file an information return consisting of Form 1065ME/1120S-ME, a copy of the federal return and federal Schedules K-1. If you are filing an information return for an S corporation that is not subject to tax at the corporate level, do not file Form 1120ME.

Shareholders and partners are subject to Maine income tax. Those who are nonresident individuals and who have no other Maine-source income may satisfy the filing requirement with a composite return. In that event, the entity would file a return on behalf of its shareholders or partners

using Form 1040ME labeled "composite return." For additional information, see Maine Revenue Services Rule 805.

S corporations that incur federal taxable income (e.g. certain capital gains and certain built-in gains) at the corporate level are required to file Form 1120ME and report only the income on Form 1120ME that is taxed at the corporate level for federal purposes.

12. FEDERAL AUDIT CHANGES AND AMENDED RETURNS: Taxpayers must file Maine amended returns for any change or correction by the Internal Revenue Service in federal taxable income within 90 days after final determination of such change or correction. Attach a copy of the Internal Revenue Agent's report with all supporting schedules to your Maine amended return, Form 1120X-ME.

Taxpayers filing amended federal income tax returns must, within 90 days, file amended Maine income tax returns with copies of federal Form 1120X. When filing returns that reflect federal net operating losses, a copy of federal Form 1139 must be attached.

In addition, an amended Maine income tax return is required to correct errors on a previously filed return. The amended return must be filed within 90 days of the discovery.

13. MAINE SALES AND USE TAX INFORMATION: Taxable items bought from out-of-state sellers that do not collect Maine sales tax are subject to a use tax. The use tax equals 5.5% of the purchase price where no sales tax has been paid (after July 1, 2000, the use tax rate is 5%). Use tax is also due on mail orders where there is no sales tax. There is no use tax liability on purchases where sales tax has been **paid** to states with a sales tax rate equal to or greater than the Maine sales tax rate. If you are registered for sales/use tax purposes and are receiving returns, report purchases on the applicable "Taxable Purchases" line of that return. Call 207-287-2336 if you have questions about Maine Use Tax Law.

14. ELECTRONIC FUNDS TRANSFER: Corporate taxpayers may make payments electronically using the ACH Credit Method. This means that you can electronically transfer funds from your bank account to the State of Maine. Taxpayers with an annual corporate liability of \$400,000 or more are mandated by Rule 102 to pay electronically. You will be separately notified if mandated.

To obtain an application, a copy of the rule or to get more information, call 207-287-8276 or write: EFT Unit, Maine Revenue Services, 24 State House Station, Augusta, ME 04333-0024. The ACH Credit Method application and Me. Rev. Serv. Rule 102 can also be downloaded from Maine Revenue Services Web page: <http://janus.state.me.us/revenue/eft/homepage.htm>.

Penalty for failure to pay by electronic funds transfer. Any person required to pay by electronic funds transfer who fails to do so is liable for a penalty equal to the lesser of 5% of the tax due or \$5,000.

Penalty for insufficient funds. The penalty for insufficient funds also applies to electronic funds transfers. The penalty is \$20 or 1% of the payment amount, whichever is greater.

15. OVERPAYMENTS CREDITED TO FUTURE TAX YEARS: Effective January 1, 2001, Maine Revenue Services will offset tax overpayments designated to be carried forward in order to satisfy an existing debt with the bureau or other agency.

AFFILIATED/UNITARY BUSINESS Combined Reporting

A taxable corporation that is a member of an affiliated group and is engaged in a multi-corporate unitary business must file a combined report based on the federal taxable income of the unitary group. Corporations that are part of an affiliated unitary group but are not required to file a federal income tax return are to be excluded from the combined report.

Maine defines “**affiliated group**” to mean a group of two or more corporations in which more than 50% of the voting stock of each member corporation is directly or indirectly owned by a common owner or owners, either corporate or non-corporate, or by one or more of the member corporations. A “**unitary business**” is one that is characterized by unity of ownership, functional integration, centralization of management and economies of scale. The cumulative effect of these characteristics is analyzed to determine if the affiliated businesses are unitary.

Unity of ownership is generally demonstrated when 50% or more of the voting stock is owned directly or indirectly by a common owner or owners, either corporate or non-corporate, or by one or more of the member entities.

Centralized Management is indicated when directors, officers, and/or other management personnel jointly participate in management decisions which affect the respective companies. Centralized management still exists when day-to-day management responsibilities are decentralized, as long as the overall strategy of the whole group is effected centrally. Other indicators of centralized management include managing to ensure that the business segments are operated for the benefit of the entire group and not just for their own individual interest, transferring knowledge and expertise among the segments, adhering to common standards of professionalism, profitability and/or ethical practices and transferring or rotating officers or other management employees among the business segments.

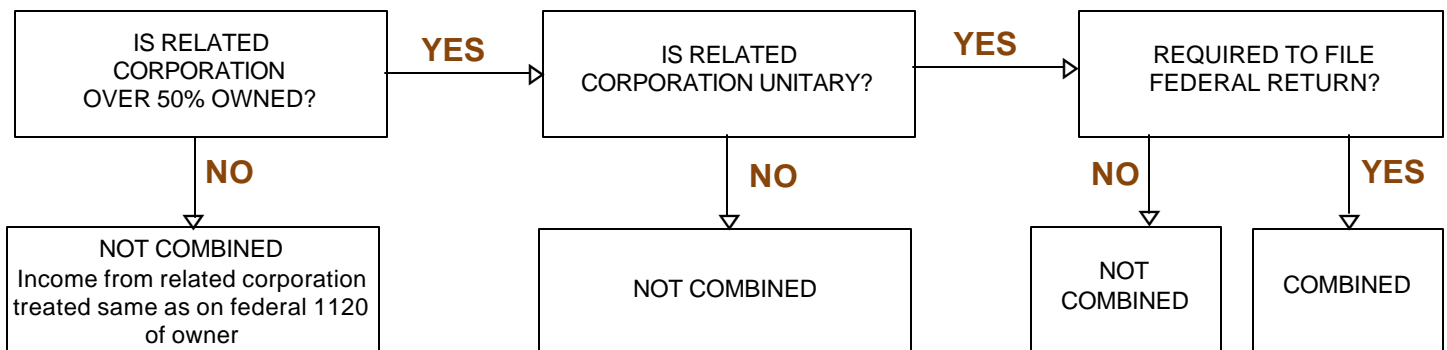
Functional integration refers to transfers between or pooling among business segments that significantly affect the business operations of the segments. There is no specific type of functional integration that must be present. Facts suggesting the presence of functional integration should be analyzed for their cumulative effect and not in isolation. Functional integration can be illustrated by: common marketing, intercompany sales, exchanges or transfers of products, services or intangibles, common distribution systems, common purchasing, etc.

Economies of Scale exist when companies interact to achieve, or have the potential to achieve, a decrease in the cost of production or in the cost of administrative functions due to the increase in size of the combination. Economies of scale may exist from the inherent cost savings that arise from the presence of functional integration or centralization of management.

A unitary determination is made by reviewing all the business activities of an affiliated group. A **flow of value** arising from these activities is indicative of multi-corporate unity. A unitary business questionnaire is available on Maine Revenue Services Web site (<http://janus.state.me.us/revenue/business>) to help you determine whether your business operates in a unitary manner.

See **Schedule CB** and instructions on pages 15-18 for additional information on combined reporting.

MAINE COMBINED REPORTING DECISION TREE



Note: For tax years beginning on or after January 1, 1997, 80/20 companies (domestic corporations with at least 80% of gross income generated from foreign sources [IRC § 861(c)(1)(B)]) must be included in the base for Maine net income and combined reporting.

SPECIFIC INSTRUCTIONS

Line 1. FEDERAL TAXABLE INCOME: Enter federal taxable income from line 30 of federal Form 1120 or line 26 of federal Form 1120A, unless the corporation is an S corporation. For S corporations, the corporate level federal taxable income would be entered on line 1 of the Maine corporate return. Corporations that are members of an affiliated unitary group should refer to the "Combined Reporting Instructions" on page 4 and on Schedule CB.

Line 2a. NONTAXABLE INTEREST: Enter interest on U.S. bonds, U.S. Treasury notes or other obligations of the U.S. government which, by law, are exempt from state taxes, but taxable by the federal government. Interest from bonds issued by Maine municipalities is exempt from Maine income tax even if taxed on the federal return. Taxpayers may subtract from federal taxable income interest income and capital gains from the sale of bonds issued by the Waste Management Agency to the extent included in federal taxable income.

Line 2b. FOREIGN DIVIDEND GROSS-UP: Enter the amount from federal Form 1120, Schedule C, line 15.

Line 2c. WORK OPPORTUNITY CREDIT: Enter on this line an amount equal to your federal Work Opportunity Credit from federal Form 5884, line 4.

Line 2d. INCOME NOT TAXABLE UNDER THE CONSTITUTION OF MAINE OR THE U.S.: Enter non-unitary income this state is prohibited from taxing under the constitutions of the United States or the State of Maine. The amount must be decreased by any expenses incurred in the production of that income to the extent that these expenses are deductible in determining federal taxable income.

Line 2e. DIVIDENDS FROM AFFILIATED CORPORATIONS: Enter 50% of all apportionable dividends from affiliated corporations that are not included by the taxpayer in a Maine combined report. Dividends must be included in federal taxable income, line 1.

Line 2f. NET OPERATING LOSS DEDUCTION CARRYOVER: If you have a net operating loss for tax years beginning in 1989, 1990, 1991 or 1992 that was carried back for federal purposes but not allowed for Maine, you are allowed a deduction on this line as a net operating loss carryforward. However, the net operating loss carryover cannot reduce Maine net income to less than zero.

Line 2g. INCOME FROM OWNERSHIP INTEREST IN FLOW-THROUGH ENTITY FINANCIAL INSTITUTIONS SUBJECT TO MAINE FRANCHISE TAX: Financial institutions are subject to Maine's franchise tax, regardless of organizational structure. If federal taxable income includes income from ownership of a financial institution that is a flow-through entity (partnership, S corporation, entity disregarded as separate from its owner), enter the amount on this line. Attach federal Schedule K-1 to verify this amount.

Line 2h. STATE INCOME TAX REFUNDS: Enter the amount of state income tax refunds included in federal taxable income provided the amount has already been taxed by Maine. This modification may not reduce Maine Net Income to less than zero and the amount to be refunded from this state or another state may not have been previously used as a modification. Any unused portion of the modification may be carried back two years and carried over 20 years.

Line 2i. NORTHERN MAINE TRANSMISSION CORPORATION ADJUSTMENT: Beginning September 18, 1999, bonds, notes, other evidences of indebtedness; interest and profits from bonds, notes, other evidences of indebtedness; and any other income or money of the Northern Maine Transmission Corporation are exempt from state corporate income tax.

Line 4a. INCOME TAXES IMPOSED BY MAINE OR ANY OTHER STATE: Maine does not permit a deduction for income taxes imposed by Maine or any other state. Add back income taxes taken as a deduction on federal Form 1120 or 1120-A.

Line 4b. UNRELATED EXPENSES: If the corporation(s) listed on this return is (are) part of a federal consolidated group, but filing separately for Maine, any expenses incurred by the corporation(s) on behalf of subsidiaries or other members of a group that are not included on this return must be added back. Attach supporting schedules.

Line 4c. INTEREST FROM STATE AND MUNICIPAL BONDS OTHER THAN MAINE: Corporations must add interest on state and municipal bonds that originate outside Maine to federal taxable income for Maine income tax purposes.

Line 4d. NET OPERATING LOSS RECOVERY ADJUSTMENT: Enter on this line:

(1) The amount of any net operating loss for this taxable year which has or will be carried back to previous taxable years pursuant to Internal Revenue Code §172, and;

(2) The amount of any net operating loss carryover deduction claimed in this taxable year under Internal Revenue Code § 172 which has previously been used to offset Maine modifications to federal taxable income. (36 M.R.S.A. § 5200-A(1)). See example below.

Net Operating Loss Recovery Adjustment (Form 1120ME, line 4d).

The following example illustrates the NOL Recovery Adjustment:

On the original returns, federal taxable income (FTI) for 1998 was \$30,000, Maine positive modifications were \$10,000 for a Maine taxable income (MTI) of \$40,000. For 1999, FTI was \$25,000, Maine positive modifications were \$8,000, MTI was \$33,000. The figures below represent amended returns for 1998 and 1999.

Corresponding Line on Maine Return	NOL Year 2000	Carryback Years	
		1998	1999
1. Federal taxable income	- 60,000	30,000	25,000
		- 30,000	- 25,000
1. Federal taxable income on amended return		0	0
4d. NOL Carryback from 2000	55,000		
4. Maine modification addition	12,000	10,000	8,000
5. Maine taxable income	7,000	10,000	8,000

Of the original \$60,000 loss in 2000, \$55,000 is carried back to 1998 and 1999 at the federal level. To calculate Maine taxable income for 2000, the remaining \$5,000 loss is utilized against Maine modifications. If the \$5,000 loss is included in the 2001 FTI (line 1, Form 1120ME) it must be added back as a modification on the 2001 Maine tax return (on line 4d, Form 1120ME) in order to avoid using the loss twice for Maine purposes.

For additional information concerning the NOL recovery adjustment, see Me. Rev. Serv. Rule 807, available at:

<http://janus.state.me.us/revenue/rules>.

SPECIFIC INSTRUCTIONS CONTINUED

Line 4e. LOSS, EXPENSES OR DEDUCTIONS FROM OWNERSHIP INTEREST IN FINANCIAL INSTITUTIONS SUBJECT TO MAINE FRANCHISE TAX: All financial institutions are subject to Maine's franchise tax, regardless of the entity's organizational structure. If federal taxable income includes a loss, expense or deduction from ownership of a financial institution that is a flow-through entity (partnership, S corporation, entity disregarded as separate from its owner), enter the amount on this line. Attach federal Schedule K-1 to verify this amount.

Line 4f. HIGH-TECHNOLOGY CREDIT ADD-BACK: Maine net income must be increased by the amount of investment credit base used for the high-tech credit also claimed as a business expense for federal income tax purposes.

Line 6. MAINE NET INCOME: Corporations that are not part of an affiliated-unitary group and have income solely from business activity within Maine enter on line 6 the same amount as on line 5. Corporations having income from within and outside the state apportion income on Schedule A and enter on this line the amount shown on line 17 of Schedule A. All corporations that are members of an affiliated-unitary group must complete Schedule A. See Combined Reporting Instructions on page 4 of this booklet and the instructions on Schedule CB.

Line 7a. MAINE CORPORATE INCOME TAX: For tax years beginning in 2000, the Maine corporate tax rates are as follows:

If the Maine net income is:

Greater Than	But not over	The tax is:
\$ 0	\$ 25,000	3.5% of Maine net income
25,000	75,000	\$ 875 plus 7.93% of the excess over \$ 25,000
75,000	250,000	4,840 plus 8.33% of the excess over \$ 75,000
250,000	or more	19,418 plus 8.93% of the excess over \$250,000

In the case of an affiliated group of corporations subject to Maine tax and engaged in a unitary business, the respective preferential rates are applied only to the first \$250,000 of Maine net income of the entire group and are divided equally among the taxable corporations unless those taxable corporations jointly elect a different assignment. The balance of Maine net income of the entire group is taxed at 8.93%. Attach a schedule to show income assignment to each corporation.

Line 7b. MINIMUM TAX: A minimum tax may be imposed, for each taxable year, upon every corporate taxpayer required to file a Maine corporate income tax return. Complete Schedule B to compute the amount to be entered on this line.

Lines 8a and b. CREDITS: Enter estimated tax payments and extension payments made for the tax year. If claiming real estate withholding payments on line 8a, you must attach Form REW-1.

Line 8c. OTHER CREDITS: The amount on this line cannot exceed the tax liability on line 7c of Form 1120ME.

Line 9b. PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX: If the corporation underpaid estimated tax, complete and attach Form 2220ME to the corporate return.

Line 11a. AMOUNT OF LINE 10 YOU WISH CREDITED: Use this line only if you want to have all or part of the overpayment on line 10 applied as a payment to your next year's estimated Maine corporate income tax.

Line 11b. AMOUNT TO BE REFUNDED: Enter here the difference between lines 10 and 11a. Refunds of \$1.00 or more will be mailed to you.

SCHEDULE A INSTRUCTIONS

GENERAL INSTRUCTIONS

Schedule A is for corporations engaged in interstate business. Maine employs a three-factor formula to determine the percentage of corporate income that is apportioned to Maine. This percentage is derived from a fraction, the numerator of which is the property factor plus the payroll factor plus twice the sales factor, and the denominator of which is four. 36 M.R.S.A. §§ 5210-5211 and Me. Rev. Serv. Rule 801. If the apportionment provisions do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Executive Director may require, in respect to all or any part of the taxpayer's business activity:

- (a) Separate accounting;
- (b) The exclusion of any one or more of the factors;
- (c) The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state, or;
- (d) The employment of any other method to effectuate an equitable apportionment of the taxpayer's income.

"Tax period," referred to in instructions for lines 12, 13 and 14, means the period represented by adjusted federal taxable income on line 5 of Form 1120ME.

"Sales" means all gross receipts including trade sales, dividends, interest, rents and royalties.

Those corporations that are members of an affiliated-unitary group should see further instructions on page 4 and on Schedule CB.

SPECIFIC INSTRUCTIONS

Line 12. SALES FACTOR: The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in the state during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are attributed to Maine if (1) the property is delivered or shipped to a purchaser, other than the United States Government, in Maine, regardless of the F.O.B. point or other conditions of the sale, or (2) the property is shipped from an office, store, warehouse, factory or other place of storage in Maine and the purchaser is the United States Government or the taxpayer is not taxed in the state of the purchaser.

Sales, other than sales of tangible personal property, are attributed to Maine if (1) the income-producing activity is performed in this state, or (2) the income-producing activity is performed both in and outside Maine, and a greater proportion of the income-producing activity (based on costs of performance) is performed in this state than in any other state.

Line 13. PAYROLL FACTOR: The payroll factor is a fraction, the numerator of which is total compensation paid in Maine during the tax period by the taxpayer, and the denominator of which is total compensation paid everywhere during the tax period. "Compensation" means wages, salaries, commissions and any other form of remuneration to employees for personal services, including deferred compensation. Compensation is paid in Maine if (1) the individual's service is performed entirely within this state, (2) the individual's service is performed both within and outside Maine, but the service performed outside the state is incidental to the individual's service within Maine, or (3) some of the service is performed in this state, the base of operations (or, if there is no base of operations, the place from where the service is directed or controlled) is not in any state in which some part of the service is performed, and the individual's residence is in Maine.

Line 14. PROPERTY FACTOR: The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property (including inventory) owned or rented and used in Maine during the tax period and the denominator of which is the average value of all the taxpayer's real and tangible personal property (including inventory) owned or rented and used during the tax period. Property owned by the taxpayer is valued at original cost.

Property rented by the taxpayer is valued at eight times the annual rental rate. The average value of the property shall be determined by averaging the values at the beginning and end of the tax period, but the Executive Director may require the averaging of monthly values during the tax period if reasonably required to reflect properly the average value of the taxpayer's property.

Line 16. Enter adjusted federal taxable income from page 2, line 5 of Form 1120ME.

Line 18a. Enter on this line the amount of throwback sales included in line 12, Column A. Throwback sales are sales of tangible personal property delivered or shipped from a location in Maine that are not taxable in the state of the purchaser. Throwback sales also include sales shipped from another state if such sales are not taxable by the state from which the sales are shipped and if the sales representative operates from an office located in Maine.

SCHEDULE C INSTRUCTIONS

29a. Maine Seed Capital Tax Credit: Enter on this line the tax credit as authorized by the Finance Authority of Maine. A copy of the tax credit certificate must be attached to the return. The amount of credit is subject to limitations as outlined in 36 M.R.S.A. § 5216-B.

***29b. Jobs and Investment Tax Credit:** A tax credit for qualifying jobs and investment is entered on this line. Eligibility for the credit requires the addition of \$5 million of IRC § 38 property based on the Internal Revenue Code of 1954, as of December 31, 1985, § 38(b)(1), and 100 new jobs in the 24-month period following the date the property was placed in service. For further details see 36 M.R.S.A. § 5215. **Jobs created between August 1, 1998 and October 1, 2001 must be covered by qualified retirement and health insurance plans, and wages must be greater than the average per capita income in the labor market area in which the employee is employed.**

29c. Employer-Assisted Day Care Tax Credit: A taxpayer constituting an employing unit is allowed a credit for providing or paying day care expenses of employees subject to the limitations of 36 M.R.S.A. § 5217. The tax credit is limited to the lowest of \$5,000, 20% of the cost incurred or \$100 for each child of an employee of the taxpayer enrolled on a full-time basis. Carryover provisions apply.

29d. Employer-Provided Long-Term Care Benefits Credit: For tax years beginning on or after January 1, 2000, employers are eligible for the employer-provided long-term care credit if the policy on which premiums paid meets the federal definition of a qualified long-term care insurance contract. Premiums paid on long-term care insurance policies previously certified by the Bureau of Insurance as being eligible for this credit will continue to be eligible even if the policy does not meet the federal definition for a qualified long-term care insurance contract. 36 M.R.S.A. § 5217-C.

29e. Machinery and Equipment Investment Tax Credit: Machinery and equipment placed into service prior to January 1, 1989 and after April 1, 1996 does not qualify for the Machinery and Equipment Investment Tax Credit. The credit is equal to 1% of the investment credit base of the taxpayer. Machinery and equipment on which property taxes are reimbursed pursuant to 36 M.R.S.A. §§ 6651-6660 are also not eligible for the investment tax credit for that taxable year (applicable to tax years ending on or after July 1, 1997). The credit is limited to 100% of the first \$25,000 of tax liability plus 75% of any liability that exceeds \$25,000. The credit may not exceed the actual tax liability. Carryover provisions apply. Also, the 12-year reimbursement period under the Business Equipment Tax Reimbursement Program must be reduced one year for every year the qualified equipment was included in the Investment Tax Credit base. 36 M.R.S.A. § 5219-E.

29f. Solid Waste Reduction Investment Tax Credit: Taxpayers can claim a credit on solid waste reduction, reuse or recycling machinery and equipment certified as eligible for the credit by the State Planning Office. The credit is the amount certified by the State Planning Office and applies to machinery and equipment placed into service from January 1, 1990 to June 30, 1991 or January 1, 1993 to June 30, 1995. Carryover of any unused credit must be used by December 31, 2004. The taxpayer must attach a copy of the eligibility certificate in order to claim the credit. Recapture provisions apply on the early disposal of machinery and equipment for which a credit has been claimed. 36 M.R.S.A. § 5219-D.

***29g. Research Expense Tax Credit:** The credit is 5% of qualified research expenses incurred during the taxable year that exceed the average qualified research expense for the previous 3 tax years, plus 7.5% of the basic research payments determined pursuant to IRC § 41(e)(1)(A). Only expenditures for research conducted in Maine qualify for the credit. The term “qualified research” is defined in IRC § 41(d). The credit is limited to the first \$25,000 of tax liability before credits plus 75% of the tax liability that exceeds \$25,000. Carryover provisions apply. 36 M.R.S.A. § 5219-K.

29h. Super Research & Development Credit: Businesses whose Maine research expenses increase by more than 50% over the average research expenses incurred in the three years immediately preceding the effective date of the credit qualify for the credit. The credit is equal to the excess over 150% of the 3-year average. The credit is limited to 50% of the net income tax due after other credits and may not reduce the tax liability below the liability of the previous year after the allowance of all other credits. Carryover provisions apply. **The credit applies to tax years beginning on or after January 1, 1998.** 36 M.R.S.A. § 5219-L.

29i. High-Technology Investment Tax Credit: Businesses engaged **primarily** in high-tech activities are eligible for this credit. The credit is equal to the adjusted basis of eligible equipment on the date that equipment is placed in service in Maine, net of any lease payments received during the year. Lessors may claim the credit only if the lessee waives its entitlement to the credit. The credit may not reduce current year’s tax liability below the liability of the previous year after the allowance of all other credits. The credit may not reduce tax liability below zero. Carryover provisions apply. Maine net income must be increased by the amount of the investment credit base also claimed as a business expense for federal income tax purposes. **The credit applies to tax years beginning on or after January 1, 1998.** 36 M.R.S.A. § 5219-M.

29j. Maine Minimum Tax Credit: A minimum tax credit is available for tax years beginning on or after January 1, 1992. This credit is modeled after the federal alternative minimum tax credit. Complete Schedule D on page 4 of Form 1120ME to calculate your credit. 36 M.R.S.A. § 5203-A(5).

29k. Credit for Dependent Health Benefits Paid: Employers that offer a qualified health benefit plan and that employ fewer than five low-income employees may qualify for this credit. The credit is equal to the lesser of 20% of the dependent health benefits paid by the employer or \$125 per employee with dependent health benefits coverage. A taxpayer that employs five or more low-income employees after qualifying for the credit may continue to qualify for the credit for another two years. Otherwise, a taxpayer may claim a credit only for those periods during which the employer: 1) offers a qualified health benefit plan that is made available to all of its low-income employees; 2) pays at least 80% of the health insurance costs for each low-income employee under the plan, and; 3) pays at least 60% of the cost of dependent health insurance benefits for children under 19 who are dependents of a low-income employee under the plan. The credit is limited to 50% of the income tax due. Any unused credit may be carried over for two years. The credit applies to tax years beginning on or after January 1, 1999. 36 M.R.S.A. § 5219-O.

29l. Clean Fuel Credit: The credit is based on the expenditures paid or incurred for construction, installation of or improvements to any filling station or charging station in Maine for the purpose of providing clean fuels to the general public for use in motor vehicles. Clean fuel is defined as any product or energy source other than conventional gasoline, diesel or reformulated gasoline, that lowers emissions of certain pollutants. Clean fuel includes, but is not limited to, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hythane, dynamic flywheels, solar energy, alcohol fuels and electricity. **The credit applies to expenditures incurred on or after January 1, 1999 and automatically expires January 1, 2006.** 36 M.R.S.A. § 5219-P.

29m. Historic Rehabilitation Credit: A taxpayer is allowed a credit equal to the amount of the federal credit including carryovers for rehabilitation of certified historic structures located in Maine. The credit is nonrefundable and is limited to \$100,000 annually per taxpayer. The credit is subject to the same recapture provisions as under the Internal Revenue Code. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. § 5219-R.

29n. Family Development Account Credit: Individuals whose family income is below 200% of the poverty level may open a family development account in connection with an approved community development organization. Use of these funds include educational expenses, home and auto purchases or repairs, emergency expenses for basic needs, capital to start a business and health care costs. Accounts are funded by deposits made by family members participating in the program and matching funds from community development organizations. Deposits to the fund are not exempt from tax; however, withdrawals (both principal and interest) are exempt from Maine income tax. 10 M.R.S.A. § 1077(4).

New legislation provides a credit to contributors to family development matching fund accounts. The credit per tax return is equal to the lesser of \$25,000 or 50% of the amount contributed. The credit is limited to the tax liability on the return and must be taken after the allowance of all other credits. Maine itemized deductions must exclude any contributions claimed for this credit. The aggregate allowable credit amount in a state fiscal year is limited to \$200,000. The Finance Authority of Maine is required to certify the allowable credit for each contributor. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. § 5216-C.

(NOTE: The total of Schedule C cannot exceed the tax liability on line 7c of Form 1120ME.)

*** Any employer claiming a credit amount on this line in excess of \$10,000 must file a report with the Department of Economic and Community Development. The report covers credit amounts and employment information and is available on the Maine Revenue Services’ web site at <http://janus.state.me.us/revenue> or by calling 207-287-2686.**

Sawmill Biomass Credit: This credit is available to eligible taxpayers that produce merchantable lumber or secondary wood products and who transport wood processing residue (bark and sawdust material) to qualifying facilities. A qualifying facility is a facility not affiliated with the taxpayer that uses the residue to generate electricity, industrial heat and steam; for landscaping mulch or soil amendment (but not for landfill); for composting of sewer sludge; to manufacture certain building products; or to convert ethanol or other forms of fuel. The credit applies to deliveries made from July 1, 2000 to June 30, 2001. The credit is equal to an amount up to \$6 per ton (dependent upon the number of miles the residue is transported) minus amounts received for the residue. To claim this credit, call 207-624-7894 and request the Sawmill Biomass Credit Application.

IMPORTANT: IF ALL REQUIRED LINES AND SCHEDULES (INCLUDING SCHEDULE CB) ARE NOT COMPLETED, THE RETURN IS INCOMPLETE AND NOT CONSIDERED A FILED RETURN. ALSO, PAGES 1-4 OF THE FEDERAL RETURN MUST BE ATTACHED TO YOUR MAINE CORPORATE RETURN.